

## WORKERS' COMPENSATION INSURANCE: AN OVERVIEW

Workers' compensation coverage pays benefits to workers injured on the job, including medical care, part of lost wages and permanent disability. It also provides death benefits to dependents of employees killed from a work-related accident. Workers' compensation systems are different in every state, as individual statutes and court decisions have shaped the way they handle claims, evaluate impairments, settle disputes, provide benefits and control costs.

### Background of Workers' Compensation Insurance

During the 19th century, the number of individuals joining the workforce grew exponentially. As a result, the number of workplace accidents grew as well. At that time, the only way that injured workers could obtain compensation for their injuries was to sue the employer. Many legislative proposals emerged early in the 20th century, focusing on compensating injured workers for their medical care and lost wages.

By 1949, all states had a system in place to provide compensation for injured employees. Under these systems, the employer was responsible for providing compensation for the cost of medical care and wages lost, and consequently, the employee gave up his or her right to sue the employer for injuries. Currently, Texas is the only state where workers' compensation is not mandated for all employers.

As part of the insurance package, the injured worker's medical, rehabilitation and lost wages are paid for by the state or insurance carrier. If the injury leaves the employee disabled, the insurance carrier will pay the claim based on the extent of the injuries and based on its permanence. The disability will fall into one of the following categories: temporary total, temporary partial, permanent partial or permanent total disability.

Workers' compensation rates and programs are managed by private insurers, state funds or the National Council on Compensation Insurance (NCCI). Your Conner Strong and Buckelew team can provide more information about how your state handles these programs.

### Understanding Your Workers' Compensation Experience Modification Factor

A key to understanding your workers' compensation premium is the experience modification factor, also known as your mod. Understanding your company's mod and the data used to obtain it helps you identify ways to minimize your workers' compensation premium.

#### Who Calculates the Mod Factor?

Most states use the National Council on Compensation Insurance (NCCI) to collect data and calculate the experience modification factor. The NCCI is a private corporation funded by member

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insurance companies. The remaining states either operate an independent workers' compensation bureau or have set aside a state fund for workers' compensation. These states may or may not use the NCCI's classification system to determine experience modification factors.

### How is a Mod Calculated?

The process of calculating the experience modification factor is complex, but the underlying theory and purpose of the formula is straightforward. Your company's actual losses are compared to its expected losses by industry type. The formula incorporates factors that account for company size, unexpectedly large losses, and the incidence of loss frequency and loss severity to achieve a balance between fairness and accountability.

### How Does my Mod Affect My Premiums?

The mod factor represents either a credit or debit that is applied to your workers' compensation premium. A mod factor greater than 1.0 is a debit mod, which means that your losses are worse than expected and a surcharge will be added to your premium. A mod factor less than 1.0 is a credit mod, which means losses are better than expected, resulting in a discounted premium.

### What is the Experience Rating Period?

The mod is calculated using loss and payroll data for an experience rating period. The experience rating period typically includes data for three policy years, excluding the most recently completed year. Three years of data is used to provide a more accurate reflection of the losses, smoothing out the impact of an exceptionally bad or good year for losses.

### How Can You Control Your Mod?

Your mod factor has a direct impact on your workers' compensation premium. One way to control your insurance costs is accident prevention.

- The mod is calculated based on data reported to the rating bureau by past insurers. Incorrect or incomplete data can cause incorrect mod factors. Review loss and payroll data to ensure the calculation is complete and accurate.
- Losses remain in the experience rating formula for three years. The experience modification factor is influenced more by small, frequent losses than by large, infrequent ones.
- Safety programs, return to work programs and appropriate prevention procedures can help to reduce loss frequency.
- An effective self-inspection and accident investigation program are critical to managing claim frequency.



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- Claims management programs can help your business manage outstanding reserves and focus on efficiently resolving open claims.
- Report claims immediately.
- All injured employees should be provided with light duty upon their release from treatment so you can close claims and ensure the health of your employees.
- Supervisory roles should have set safety performance goals. Success in achieving safety goals should be used as one measure during performance appraisals.
- Employees should be trained on their responsibilities for safety, and should know to enforce violations.
- You should frequently communicate with employees on a formal and informal basis regarding the importance of safety.

### Reporting Workers' Compensation Claims

Workers' compensation laws are often misunderstood because they can vary significantly between states. If your employee reports an injury and you are unsure of what steps to take, you are not alone. However, regardless of your company's geographical location, the first two days after an employee gets injured on the job are always the most important.

It is important to act quickly and take action immediately for legal reasons, but also because studies show that the faster you initiate the workers' compensation process after an injury, the lower the ultimate cost of your claims. The following outlines the role and responsibilities when a claim occurs at work.

### Employee Responsibilities

- When an Injury Occurs, report the injury to your supervisor.
- Seek medical treatment with designated health care provider, if applicable.
  - If designated healthcare provider is closed, or the situation is urgent, report to the Emergency Department.
- Communication:
  - Update your supervisor on the status of your injury and disability.
  - Update Employee Occupational Health Center and your claims adjuster if your care has been directed to a physician.
  - Assist with the investigation into the circumstances of the injury.
  - Assist in identifying corrective actions to prevent re-injury.

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### Employer's Responsibilities

- **Supervisor's Role:** Investigate the facts of the incident. The accident investigation report should include the following:
  - Interview with the injured employee
  - Interview with the witness(es)
  - A review of the established procedures to ensure adequacy and whether or not these were followed
  - A review of the training records of the affected employee and a determination of all contributing causes of the accident
  - Comment on any corrective actions to prevent accident/exposure from reoccurring
- **Report the claim to the Carrier or Third Party Administrator (TPA):**
  - Appropriate personnel should report the facts above to the carrier or TPA via online system or phone. Notify your Conner Strong & Buckelew Claim Consultant of any severe, catastrophic or concerning claims.
- **Contact with the Injured Worker:**
  - The employer should continue to follow up with the injured worker's well being and progress of recovery to ensure them they are a valued member of the company and the company cares.
  - If the injured worker has retained an attorney, all communication regarding the litigation of the claim should be directed to his/her attorney.
- **Returning to Work:**
  - The designated medical provider will work with Human Resources, the injured worker's designated department and other available departments regarding work abilities and available employment opportunities.

### TPA Responsibilities

- **Intake of the First Report of Injury**
  - Carrier or TPA will provide a claim number to the employer once the claim is set up.
- **Determine whether the injury is categorized as a Medical Only (MO) or Lost Time (LT) claim.**
  - If the claim is determined be a MO Claim, it will be handled by a Medical Only adjuster and the treatment will be monitored to conclusion.

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- If the claim is determined to be a LT claim, it will be handled by a LT adjuster.
- Review the Claims Handling Guidelines in place for client
  - The adjuster will review the agreed upon claims handling guidelines to ensure they adhere to all protocols.
- Investigation & Claim Handling
  - The adjuster should make 3 point contact on all LT claims with:
    - Employer
    - Employee
    - Treating Physician
  - The adjuster will review for a compensability and ultimately either accept or, if non-compensable, issue a denial to the employee.
  - Throughout the life of the LT claim, if there is no attorney involvement, the adjuster will maintain contact with the employee, employer and physician on the status of the employee's condition.
  - Once an attorney is involved, the adjuster will discontinue contact with the injured worker, and all contact that would have been with the injured worker will then be directed through his/her attorney.